

**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Johnny Hobdy, Allen County Judge/Executive

Members of the Allen County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Allen County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ALLEN COUNTY FISCAL COURT

June 30, 2011

Peercy and Gray, PSC has completed the audit of the Allen County Fiscal Court for fiscal year ended June 30, 2011. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining funds of Allen County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$13,220,724 as of June 30, 2011. The fiscal court had unrestricted net assets of \$403,225 in its governmental activities as of June 30, 2011, with total net assets of \$13,200,770. In its business-type activities, total net cash and cash equivalents were \$13,885 with total net assets of \$19,954. The fiscal court had total debt principal as of June 30, 2011 of \$16,049,000 with \$833,205 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

Report Comments:

2011-01 The Fiscal Court Should Record All Fixed/Capital Assets In Accordance With The Approved Capitalization Policy

2011-02 Penalties And Interest Due On Delinquent Occupational Tax Not Collected

CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
ALLEN COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	35
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS	39
NOTES TO FINANCIAL STATEMENTS.....	41
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS.....	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	64
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	66
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	70
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	75
COMMENTS AND RECOMMENDATIONS.....	79
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Johnny Hobdy, Allen County Judge/Executive

Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds of Allen County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Allen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Allen County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen County, Kentucky, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it related to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not resented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Members of the Allen County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Allen County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2011, on our consideration of Allen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2011-01 The Fiscal Court Should Record All Fixed/Capital Assets In Accordance With The Approved Capitalization Policy
- 2011-02 Penalties And Interest Due On Delinquent Occupational Tax Not Collected

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC
Certified Public Accountants

December 7, 2011

ALLEN COUNTY OFFICIALS**For The Year Ended June 30, 2011****Fiscal Court Members:**

Johnny Hobdy	County Judge/Executive
Dennis Harper	Magistrate
Danny Rutheford	Magistrate
Tony Wolfe	Magistrate
Rickey Cooksey	Magistrate
Roman Perry, Jr.	Magistrate

Other Elected Officials:

William P. Hagenbuch, Jr.	County Attorney
Larry Piper	Jailer
Beverly Calvert	County Clerk
Todd Calvert	Circuit Court Clerk
Jeff Cooke	Sheriff
Lena Williams	Property Valuation Administrator
Darren Davis	Coroner

Appointed Personnel:

Melba Patrick	County Treasurer
Sandra Meador	Occupational Tax Collector
Mariah Burnley	Finance Officer

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ALLEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

ALLEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,910,479	\$ 13,885	\$ 8,924,364
Receivables	82,275		82,275
Total Current Assets	8,992,754	13,885	9,006,639
Noncurrent Assets:			
Receivables	457,286		457,286
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,381,305		1,381,305
Construction in Progress	5,277,557		5,277,557
Buildings	2,728,649		2,728,649
Equipment	313,928		313,928
Vehicles and Equipment	450,461	6,069	456,530
Infrastructure	9,647,830		9,647,830
Total Noncurrent Assets	20,257,016	6,069	20,263,085
Total Assets	29,249,770	19,954	29,269,724
LIABILITIES			
Current Liabilities:			
Financing Obligations Payable	103,205		103,205
Bonds Payable	730,000		730,000
Total Current Liabilities	833,205		833,205
Noncurrent Liabilities:			
Financing Obligations Payable	155,795		155,795
Bonds Payable	15,060,000		15,060,000
Total Noncurrent Liabilities	15,215,795		15,215,795
Total Liabilities	16,049,000		16,049,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	12,723,334	6,069	12,729,403
Restricted For:			
General Heealth and Sanitation	72,000		72,000
Debt Service	2,211		2,211
Unrestricted	403,225	13,885	417,110
Total Net Assets	\$ 13,200,770	\$ 19,954	\$ 13,220,724

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

ALLEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,426,564	\$ 32,344	\$ 2,509,334	\$
Protection to Persons and Property	1,405,343	39,480	500,247	
General Health and Sanitation	703,211	315,594	58,850	72,000
Social Services	26,336		34,193	
Recreation and Culture	36,046			
Roads	957,370		1,751,070	
Interest On Long-term Debt	311,543			
Total Governmental Activities	6,866,413	387,418	4,853,694	72,000
Business-type Activities:				
Jail Canteen	44,031	42,163		
Total Business-type Activities	44,031	42,163		
Total Primary Government	\$ 6,910,444	\$ 429,581	\$ 4,853,694	\$ 72,000

General Revenues:

Taxes:

Real Property Taxes
Motor Vehicle Taxes
Other Taxes
Occupational License Tax
Net Profits Fee/Tax
In Lieu Of Tax Payments

Excess Fees

Miscellaneous Revenues

Interest Income

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (884,886)	\$	\$ (884,886)
(865,616)		(865,616)
(256,767)		(256,767)
7,857		7,857
(36,046)		(36,046)
793,700		793,700
(311,543)		(311,543)
(1,553,301)		(1,553,301)
	(1,868)	(1,868)
	(1,868)	(1,868)
(1,553,301)	(1,868)	(1,555,169)
552,098		552,098
105,016		105,016
338,024		338,024
1,297,662		1,297,662
198,766		198,766
99,807		99,807
7,254		7,254
422,675		422,675
43,685	14	43,699
3,064,987	14	3,065,001
1,511,686	(1,854)	1,509,832
11,689,084	21,808	11,710,892
\$ 13,200,770	\$ 19,954	\$ 13,220,724

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

ALLEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	Allen County Public Properties Corporation Justice Center Project			
	General Fund	Road Fund	Jail Fund	Project Fund
ASSETS				
Cash and Cash Equivalents	\$ 269,927	\$ 615,160	\$ 52,770	\$ 7,819,335
Due From Other Fund				
Total Assets	<u>269,927</u>	<u>615,160</u>	<u>52,770</u>	<u>7,819,335</u>
LIABILITIES				
Due To Other Fund	8,592			
Total Liabilities	<u>8,592</u>			
FUND BALANCES				
Restricted:				
General Health and Sanitation	72,000			
Debt Service				
Capital Projects				7,819,335
Assigned:				
General Health and Sanitation				
Roads		615,160		
Protection to Persons and Property			52,770	
Unassigned	<u>189,335</u>			
Total Fund Balances	<u>261,335</u>	<u>615,160</u>	<u>52,770</u>	<u>7,819,335</u>
Total Liabilities and Fund Balance	<u>\$ 269,927</u>	<u>\$ 615,160</u>	<u>\$ 52,770</u>	<u>\$ 7,819,335</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 153,287	\$ 8,910,479
8,592	8,592
<u>161,879</u>	<u>8,919,071</u>
	8,592
	<u>8,592</u>
	72,000
2,211	2,211
	7,819,335
37,306	37,306
105,751	720,911
16,611	69,381
	<u>189,335</u>
<u>161,879</u>	<u>8,910,479</u>
<u>\$ 161,879</u>	<u>\$ 8,919,071</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 8,910,479
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	32,048,347
Accumulated Depreciation	(12,248,617)
Receivable Is Not Due and Collectible in the Current Period and, Therefore, Is Not Reported in the Governmental Funds.	
City's Portion Of Courthouse Renovation Debt and Law Enforcement Building	539,561
Long-term Debt Is Not Due and Payable in the Current Period And, Therefore, Is Not Reported In The Funds.	
Due Within One Year - Bond and Financing Obligation Principal Payments	(833,205)
Due In More Than One Year - Bond and Financing Obligations Principal Payments	<u>(15,215,795)</u>
Net Assets Of Governmental Activities	<u>\$ 13,200,770</u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ALLEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Allen County Public Properties Corporation Justice Center			
	General Fund	Road Fund	Jail Fund	Project Fund
REVENUES				
Taxes	\$ 2,472,811	\$	\$	\$
In Lieu Tax Payments	99,807			
Excess Fees	7,254			
Licenses and Permits	17,005			
Intergovernmental	1,576,637	1,715,649	500,247	1,004,697
Charges for Services	32,344		39,480	
Miscellaneous	426,873	129	28,595	
Interest	1,502	7,884	25	33,801
Total Revenues	<u>4,634,233</u>	<u>1,723,662</u>	<u>568,347</u>	<u>1,038,498</u>
EXPENDITURES				
General Government	1,688,328			
Protection to Persons and Property	592,186		753,666	
General Health and Sanitation	177,281			
Social Services	26,336			
Recreation and Culture	32,469			
Roads		566,645		
Debt Service	67,567			1,003,834
Capital Projects	15,233	1,124,977	13,000	4,286,956
Administration	972,518	103,960	261,588	235,707
Total Expenditures	<u>3,571,918</u>	<u>1,795,582</u>	<u>1,028,254</u>	<u>5,526,497</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,062,315</u>	<u>(71,920)</u>	<u>(459,907)</u>	<u>(4,487,999)</u>
Other Financing Sources (Uses)				
Revenue Bond Proceeds				14,480,000
Payment on Bond Anticipation Note				(2,500,000)
Transfers From Other Funds	80,000	155,659	470,000	
Transfers To Other Funds	<u>(1,152,524)</u>			
Total Other Financing Sources (Uses)	<u>(1,072,524)</u>	<u>155,659</u>	<u>470,000</u>	<u>11,980,000</u>
Net Change in Fund Balances	(10,209)	83,739	10,093	7,492,001
Fund Balances - Beginning	<u>271,544</u>	<u>531,421</u>	<u>42,677</u>	<u>327,334</u>
Fund Balances - Ending	<u>\$ 261,335</u>	<u>\$ 615,160</u>	<u>\$ 52,770</u>	<u>\$ 7,819,335</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$	\$ 2,472,811
	99,807
	7,254
1,750	18,755
137,056	4,934,286
315,594	387,418
29,348	484,945
473	43,685
<u>484,221</u>	<u>8,448,961</u>
	1,688,328
27,040	1,372,892
499,377	676,658
	26,336
	32,469
	566,645
274,499	1,345,900
54,956	5,495,122
49,412	1,623,185
<u>905,284</u>	<u>12,827,535</u>
<u>(421,063)</u>	<u>(4,378,574)</u>
	14,480,000
	(2,500,000)
526,865	1,232,524
<u>(80,000)</u>	<u>(1,232,524)</u>
<u>446,865</u>	<u>11,980,000</u>
25,802	7,601,426
<u>136,077</u>	<u>1,309,053</u>
<u>\$ 161,879</u>	<u>\$ 8,910,479</u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ALLEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 7,601,426
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	5,495,122
Depreciation Expense	(564,860)
Book Value of Disposed Assets	(2,297)
Governmental Funds Report Amounts Collected On Receivables As Revenues. However, In The Statement Of Activities The Amount Collected On Receivables Has No Effect On Revenues. The Amount Collected Reduces Receivables Included In Net Assets.	
City's Portion Of Courthouse Renovation and Law Enforcement Building Debt Collected The Issuance O Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Principal Payments Are Expenses In The Governmental Funds As A Use Of Currect Financial Resources. These Transactions , However Have No Effect On Net Assets.	(70,862)
Bond Proceeds	(14,480,000)
Bonded Debt Principal Payments	3,435,000
Financing Obligations Principal Payments	98,157
Change in Net Assets of Governmental Activities	<u>\$ 1,511,686</u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

ALLEN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities- Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 13,885
Total Current Assets	<u>13,885</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles	21,674
Less Accumulated Depreciation	<u>(15,605)</u>
Total Noncurrent Assets	<u>6,069</u>
Total Assets	<u>19,954</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	6,069
Unrestricted	<u>13,885</u>
Total Net Assets	<u><u>\$ 19,954</u></u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ALLEN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 42,143
Other Receipts	20
Total Operating Revenues	<u>42,163</u>
Operating Expenses	
Cost of Sales	35,303
Sales Taxes	2,197
Educational, Recreational and Inmate Benefits	2,630
Depreciation	3,901
Total Operating Expenses	<u>44,031</u>
Operating Income (Loss)	<u>(1,868)</u>
Nonoperating Revenues (Expenses)	
Interest Income	14
Inmate Pay From State	2,818
Inmate Pay	<u>(2,818)</u>
Total Nonoperating Revenues (Expenses)	<u>14</u>
Change In Net Assets	(1,854)
Total Net Assets - Beginning	<u>21,808</u>
Total Net Assets - Ending	<u><u>\$ 19,954</u></u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ALLEN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities- Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 42,143
Other Receipts	20
Cash Payments To Vendors	(37,933)
Payments To Others	(2,197)
Net Cash Provided By Operating Activities	<u>2,033</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	2,818
Inmate Pay	(2,818)
Net Cash Provided By Noncapital Financing Activities	<u>0</u>
Cash Flows From Investing Activities	
Interest Earned	<u>14</u>
Net Cash Provided By Investing Activities	<u>14</u>
Net Increase in Cash and Cash Equivalents	2,047
Cash and Cash Equivalents - July 1, 2010	<u>11,838</u>
Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 13,885</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ (1,868)
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>3,901</u>
Net Cash Provided By Operating Activities	<u><u>\$ 2,033</u></u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS – MODIFIED CASH BASIS

For The Year Ended June 30, 2011

ALLEN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	<u>Agency Fund</u> <u>Inmate</u> <u>Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,319
Total Assets	<u>1,319</u>
Liabilities	
Current Liabilities:	
Amounts Held In Custody For Others	<u>1,319</u>
Total Liabilities	<u>1,319</u>
Net Assets	
Total Net Assets	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	41
NOTE 2.	DEPOSITS	48
NOTE 3.	RECEIVABLE	48
NOTE 4.	CAPITAL ASSETS.....	50
NOTE 5.	LONG-TERM DEBT	52
NOTE 7.	INSURANCE	56
NOTE 8.	INTERFUND TRANSFERS IN/OUT	57
NOTE 9.	CHANGE IN ACCOUNTING PRINCIPLES	57

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Receivables are recognized on the Statement of Net Assets, but receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and other accruals, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Allen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the Fiscal Court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the County's primary government using the blended method.

Scottsville-Allen County Public Properties Corporation

The Allen County Fiscal Court appoints a voting majority of the Scottsville-Allen County Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, fiscal court is financially accountable and legally obligated for the debt of the Scottsville-Allen County Public Properties Corporation. Financial information for the PPC is blended within Allen County's financial statements. All activities of the PPC are accounted for within a non-major (debt service) fund.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Allen County Public Properties Corporation

The Allen County Fiscal Court established a new Public Properties Corporation for the purpose of the construction of the justice center. The Allen County Fiscal Court appoints a voting majority of the Allen County Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, fiscal court is financially accountable and legally obligated for the debt of the Allen County Public Properties Corporation. Financial information for the PPC is blended within Allen County's financial statements. All activities of the PPC are accounted for within a major (capital projects) fund.

C. Allen County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Allen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Allen County, Kentucky.

Additional Allen County Elected Officials:

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the Jail expenditures of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Public Properties Corporation Justice Center Project - The primary purpose of this fund is to account for capital project requirements of the obligation bonds of the Allen County Public Properties Corporation, a blended component unit. The Allen County Public Properties Corporation issues debt to build the new justice center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Corps of Engineers Fund, Disaster and Emergency Services Fund, Transfer Station and Recycling Center Fund, Scottsville-Allen County Public Properties Corporation Bond Fund, and Jail Justice Center Bond Debt Payment Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Corps of Engineers Fund, Disaster and Emergency Services Fund, Transfer Station and Recycling Center Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Allen County Public Properties Corporation Justice Center Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition, construction, or renovation of major capital facilities.

Debt Service Fund:

The Scottsville-Allen County Public Properties Corporation Bond Fund and Jail Justice Center Bond Debt Payment Funds are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt and interest.

**ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to inmates for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for inmate monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable.

Nonspendable includes amounts that must be maintained intact legally or contractually.

Spendable amounts include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.
- Committed-amounts constrained for a specific purpose by the County using its highest level of decision-making authority. For resources considered committed, the County issues an ordinance that can only be changed with another corresponding ordinance

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the general fund, amounts constrained, by intent, to be used for a specific purpose by the County official given authority to assign amounts. For the resources considered assigned, the County has designated the Judge Executive to carry out the intent of the Fiscal Court.
- Unassigned-for the general fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other governmental funds, the amount expended in excess of resources that are nonspendable, restricted, committed or assigned.

It is the policy of the County to spend restricted funds first when both restricted and unrestricted are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointments. Based on these criteria, the Allen County Water district is considered a related organization of the Allen County Fiscal Court.

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ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Venture (Continued)

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based upon these criteria, the following are considered jointly governed organizations of Allen County Fiscal Court: Scottsville-Allen County Economic Development Industrial Board, Scottsville-Allen County Recreation Board, Allen County Ambulance Service, Scottsville-Allen County Planning Commission, and Scottsville-Allen County Rescue Squad

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The primary government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, the primary government's deposits were covered by FDIC insurance or pledged securities and a properly executed collateral security agreement.

Note 3. Receivable

Since the City of Scottsville owns 40% of the City/County Building, on January 28, 2002, the Common Council of the City of Scottsville voted to pay 40% of the debt service requirements on two financing obligations, Courthouse Renovation #1 and Courthouse Renovation #2, with the Kentucky Area Development Districts Financing Trust in Allen County Fiscal Court's name. The City's portion of the debt service requirements due as of June 30, 2011 was \$58,653 and \$16,777, respectively. Future amounts due to Allen County Fiscal Court are:

Fiscal Year Ended June 30	Governmental Activities		
	Courthouse Renovation #1	Courthouse Renovation #2	Total
Unpaid Obligation 2011	\$ 15,304	\$ 2,932	\$ 18,236
2012	14,584	4,825	19,409
2013	13,808	4,615	18,423
2014	14,957	4,405	19,362
Totals	<u>\$ 58,653</u>	<u>\$ 16,777</u>	<u>\$ 75,430</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 3. Receivable (Continued)

On January 8, 1996, the Common Council of the City of Scottsville voted to lease approximately 18 percent of the building for the amount of approximately 18 percent of the debt service requirements in the Allen County Fiscal Court's name. The City's portion of the debt service requirements due as of June 30, 2011 was \$464,130. Future amounts due to Allen County Fiscal Court are:

Governmental Activities	
Fiscal Year Ended	Series 2004
June 30	Bonds
2012	44,630
2013	45,316
2014	45,935
2015	46,486
2016	46,035
2017-2021	235,728
Totals	<u>\$ 464,130</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,381,305		\$	\$ 1,381,305
Construction In Progress	990,601	4,286,956		5,277,557
Total Capital Assets Not Being Depreciated	2,371,906	4,286,956		6,658,862
Capital Assets, Being Depreciated:				
Buildings	3,723,636			3,723,636
Equipment	631,399	10,043		641,442
Vehicles and Equipment	1,519,133	73,146	(23,004)	1,569,275
Infrastructure	18,330,155	1,124,977		19,455,132
Total Capital Assets Being Depreciated	24,204,323	1,208,166	(23,004)	25,389,485
Less Accumulated Depreciation For:				
Buildings	(916,345)	(78,642)		(994,987)
Equipment	(266,218)	(61,296)		(327,514)
Vehicles and Equipment	(1,021,364)	(118,157)	20,707	(1,118,814)
Infrastructure	(9,500,537)	(306,765)		(9,807,302)
Total Accumulated Depreciation	(11,704,464)	(564,860)	20,707	(12,248,617)
Total Capital Assets, Being Depreciated, Net	12,499,859	643,306	(2,297)	13,140,868
Governmental Activities Capital Assets, Net	<u>\$14,871,765</u>	<u>\$ 4,930,262</u>	<u>\$ (2,297)</u>	<u>\$19,799,730</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2011 was as follows: (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 21,674	\$	\$	\$ 21,674
Total Capital Assets Being Depreciated	21,674			21,674
Less Accumulated Depreciation For:				
Vehicles and Equipment	(11,704)	(3,901)		(15,605)
Total Accumulated Depreciation	(11,704)	(3,901)		(15,605)
Total Capital Assets, Being Depreciated, Net	9,970	(3,901)		6,069
Business-Type Activities Capital Assets, Net	<u>\$ 9,970</u>	<u>\$ (3,901)</u>	<u>\$ 0</u>	<u>\$ 6,069</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 111,554
Protection to Persons and Property	32,451
General Health and Sanitation	26,553
Recreation and Culture	3,577
Roads	<u>390,725</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 564,860</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 3,901</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,901</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2004

On December 2, 2004, the Scottsville-Allen County Public Properties Corporation issued \$3,075,000 of first mortgage revenue refunding bonds to advance refund the first mortgage revenue bonds, series 1996, issued by the Scottsville-Allen County Public Properties Corporation for the construction of the law enforcement center. The 2004 series bonds were issued at various rates from 2.50% through 4.25%. The final maturity date of the 2004 series bonds is June 1, 2021. On January 8, 1996, the Common Council of the City of Scottsville voted to lease approximately 18 percent of the building for the amount of approximately 18 percent of the debt service requirements. Total bonds outstanding as of June 30, 2011 totaled \$2,080,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 165,000	\$ 82,945
2013	175,000	76,758
2014	185,000	70,195
2015	195,000	63,258
2016	200,000	55,750
2017-2021	1,160,000	149,599
Totals	<u>\$ 2,080,000</u>	<u>\$ 498,505</u>

B. First Mortgage Revenue Bond Anticipation Notes, Series 2010

On June 27, 2010, the Allen County, Kentucky Public Properties Corporation issued \$14,480,000 of first mortgage revenue bonds, series 2010, for the construction of a new judicial building. The 2010 series bonds were issued at various interest rates from 1.0 to 4.0%. The final maturity date of the 2010 series bonds is August 1, 2029. Total bonds outstanding as of June 30, 2011 totaled \$13,710,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 565,000	\$ 423,810
2013	570,000	418,135
2014	580,000	411,660
2015	590,000	402,135
2016	600,000	388,735
2017-2021	3,280,000	1,672,813
2022-2026	3,865,000	1,082,883
2027-2031	3,660,000	298,319
Totals	<u>\$ 13,710,000</u>	<u>\$ 5,098,490</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

C. Courthouse Renovation #1

On October 9, 2003, the Allen County Fiscal Court entered into an agreement with Kentucky Area Development Districts Financing Trust. The agreement was for the purpose of courthouse renovation. The principal was \$510,000 at variable interest rates for a period of ten years, interest paid semi-annually and principal paid annually. The Administrative Office of the Courts, Commonwealth of Kentucky, has pledged to pay up to \$24,600 per calendar year of the debt service requirements. On January 28, 2002, the Common Council of the City of Scottsville voted to pay approximately 40% of the remaining debt service requirements. Principal outstanding as of June 30, 2011 totaled \$170,000. Future principal and interest requirements are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 55,000	\$ 5,192
2013	55,000	3,254
2014	<u>60,000</u>	<u>1,125</u>
Totals	<u>\$ 170,000</u>	<u>\$ 9,571</u>

D. Courthouse Renovation #2

On May 21, 2005, the Allen County Fiscal Court entered into an agreement with the Kentucky Area Development Districts Financing Trust. The agreement was for the purpose of courthouse renovation. The principal was \$65,000 at variable interest rates for a period of ten years, interest paid semi-annually and principal paid annually. On January 28, 2002, the Common Council of the City of Scottsville voted to pay approximately 40% of the remaining debt service requirements. Principal outstanding as of June 30, 2011 totaled \$30,000. Future principal and interest requirements are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 10,000	\$ 2,063
2013	10,000	1,537
2014	<u>10,000</u>	<u>1,013</u>
Totals	<u>\$ 30,000</u>	<u>\$ 4,613</u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

E. Sheriff's Vehicles

On December 21, 2007, Allen County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust. The agreement was for the purchase of vehicles for the Sheriff's department. The principal was \$95,795 at an interest rate of 3.75% for a period of four years, interest payable monthly and principal paid annually. Principal outstanding as of June 30, 2011 was \$40,795. Future debt service requirements are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 20,000	\$ 942
2013	<u>20,795</u>	<u>74</u>
Totals	<u>\$ 40,795</u>	<u>\$ 1,016</u>

F. Loader

On May 15, 2008, Allen County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust. The agreement was for the purchase of a loader. The principal was \$75,000 at an interest rate of 3.972% for a period of four years, interest and principal payable monthly. Principal outstanding as of June 30, 2011 was \$18,205. Future debt service requirements are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 18,205	\$ 520
Totals	<u>\$ 18,205</u>	<u>\$ 520</u>

G. First Mortgage Revenue Bond Anticipation Notes, Series 2009

On May 28, 2009, the Allen County Public Properties Corporation issued \$2,500,000 of first mortgage revenue bond anticipation notes, series 2009, for the construction of a new judicial building. The 2009 series bonds were issued at 2.75%. This note was completely paid in June 2011.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Refunding Bonds	\$4,745,000		\$2,665,000	\$ 2,080,000	\$ 165,000
Revenue Bonds		14,480,000	770,000	13,710,000	565,000
Financing Obligations	357,157		98,157	259,000	103,205
Governmental Activities					
Long-term Liabilities	<u>\$5,102,157</u>	<u>\$ 14,480,000</u>	<u>\$3,533,157</u>	<u>\$16,049,000</u>	<u>\$ 833,205</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$293,897, FY 2010 was \$436,005 and FY 2011 was \$460,691.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 6. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides postretirement health care coverage as follows.

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2011, Allen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

Note 8. Interfund Transfers In/Out

	General Fund	Corp of Engineers Fund	Justice Center Bond Debt Pmt. Fund	Total Transfers In
General Fund	\$	\$ 30,000	\$ 50,000	\$ 80,000
Road Fund	155,659			155,659
Jail Fund	470,000			470,000
DES Fund	22,732			22,732
Transfer Station	250,000			250,000
Scottsville-Allen County PPC Bond Fund	254,133			254,133
Total Transfers Out	\$ 1,152,524	\$ 30,000	\$ 50,000	\$ 1,232,524

Reasons for Transfers:

1. To move resources from the General Fund, for budgetary purposes, to the fund that will expend them.
2. To returned unused resources, for budgetary purposes, to the General Fund.

Note 9. Change in Accounting Principles

The Allen County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet – Governmental Funds. The implementation also resulted in one fund previously presented as a special revenue fund that no longer meets the definition to be rolled into the General Fund.

As a result, beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Special Reserve Fund. The effect of the change is a total increase of \$ 52,208 in the General Fund.

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ALLEN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION - Modified Cash Basis

For The Year Ended June 30, 2011

ALLEN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,287,000	\$ 2,344,447	\$ 2,472,811	\$ 128,364
In Lieu Tax Payments	72,000	87,061	99,807	12,746
Excess Fees	37,672	37,672	7,254	(30,418)
Licenses and Permits	15,500	19,850	17,005	(2,845)
Intergovernmental Revenue	1,113,993	1,471,428	1,576,637	105,209
Charges for Services	36,350	37,745	32,344	(5,401)
Miscellaneous	292,200	439,559	435,465	(4,094)
Interest	10,000	10,000	1,034	(8,966)
Total Revenues	<u>3,864,715</u>	<u>4,447,762</u>	<u>4,642,357</u>	<u>194,595</u>
EXPENDITURES				
General Government	1,771,916	1,861,484	1,688,328	173,156
Protection to Persons and Property	553,840	624,665	592,186	32,479
General Health and Sanitation	125,630	184,366	177,281	7,085
Social Services	55,000	55,000	26,336	28,664
Recreation and Culture	32,250	32,469	32,469	
Debt Service	321,702	321,702	67,567	254,135
Capital Projects			15,233	(15,233)
Administration	975,697	1,258,903	972,518	286,385
Total Expenditures	<u>3,836,035</u>	<u>4,338,589</u>	<u>3,571,918</u>	<u>766,671</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>28,680</u>	<u>109,173</u>	<u>1,070,439</u>	<u>961,266</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(651,680)	(651,680)	(1,122,524)	(470,844)
Transfers From Other Funds	<u>223,000</u>	<u>223,000</u>	<u>80,000</u>	<u>(143,000)</u>
Total Other Financing Sources (Uses)	<u>(428,680)</u>	<u>(428,680)</u>	<u>(1,042,524)</u>	<u>(613,844)</u>
Net Changes in Fund Balance	(400,000)	(319,507)	27,915	347,422
Fund Balance - Beginning	<u>400,000</u>	<u>400,000</u>	<u>189,804</u>	<u>(210,196)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 80,493</u>	<u>\$ 217,719</u>	<u>\$ 137,226</u>

ALLEN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,253,145	\$ 1,376,649	\$ 1,548,649	\$ 172,000
Charges for Services		147,300	167,000	19,700
Miscellaneous	1,000	1,000	129	(871)
Interest	6,000	6,000	7,884	1,884
Total Revenues	<u>1,260,145</u>	<u>1,530,949</u>	<u>1,723,662</u>	<u>192,713</u>
EXPENDITURES				
Roads	1,644,000	1,883,640	1,691,622	192,018
Administration	116,145	178,729	103,960	74,769
Total Expenditures	<u>1,760,145</u>	<u>2,062,369</u>	<u>1,795,582</u>	<u>266,787</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(500,000)</u>	<u>(531,420)</u>	<u>(71,920)</u>	<u>459,500</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			155,659	155,659
	<u>0</u>	<u>0</u>	<u>155,659</u>	<u>155,659</u>
Net Changes in Fund Balance	(500,000)	(531,420)	83,739	615,159
Fund Balance - Beginning	<u>500,000</u>	<u>531,420</u>	<u>531,421</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 615,160</u>	<u>\$ 615,160</u>

ALLEN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 579,565	\$ 607,559	\$ 500,247	\$ (107,312)
Charges for Services	47,000	47,000	39,480	(7,520)
Miscellaneous	42,500	42,500	28,595	(13,905)
Interest	500	500	25	(475)
Total Revenues	669,565	697,559	568,347	(129,212)
EXPENDITURES				
Protection to Persons and Property	777,105	813,399	766,666	46,733
Administration	252,160	243,860	261,588	(17,728)
Total Expenditures	1,029,265	1,057,259	1,028,254	29,005
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(359,700)	(359,700)	(459,907)	(100,207)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	309,700	309,700	470,000	160,300
Total Other Financing Sources (Uses)	309,700	309,700	470,000	160,300
Net Changes in Fund Balance	(50,000)	(50,000)	10,093	60,093
Fund Balance - Beginning	50,000	50,000	42,677	(7,323)
Fund Balance - Ending	\$ 0	\$ 0	\$ 52,770	\$ 52,770

ALLEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 4,642,357
To Record Due To LGEA Fund-Deposit Error	(8,592)
To Record Addition of Special Reserve Fund	468
Total Revenues-Modified Cash Basis	<u>\$ 4,634,233</u>
 Total Other Financing Sources (Uses)-Budgetary Basis	 (1,042,524)
To Record Addition of Special Reserve Fund	(30,000)
Total Other Financing Sources (Uses)-Modified Cash Basis	<u>\$ (1,072,524)</u>
 Total Beginning Fund Balance-Budgetary Basis	 189,804
To Record Addition of Special Reserve Fund	81,740
Total Beginning Fund Balance-Modified Cash Basis	<u>\$ 271,544</u>
 Total Ending Fund Balance-Budgetary Basis	 217,719
To Record Due To LGEA Fund-Deposit Error	(8,592)
To Record Addition of Special Reserve Fund	52,208
Total Ending Fund Balance-Modified Cash Basis	<u>\$ 261,335</u>

**ALLEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

ALLEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Local Government Economic Assistance Fund	Corps of Engineers Fund	Disaster and Emergency Services Fund	Transfer Station and Recycling Center Fund
ASSETS				
Cash and Cash Equivalents	\$ 97,159	\$ 10,854	\$ 5,757	\$ 37,306
Due From Other Fund	8,592			
Total Assets	<u>105,751</u>	<u>10,854</u>	<u>5,757</u>	<u>37,306</u>
FUND BALANCES				
Restricted:				
Debt Service				
Assigned				
General Health and Sanitation				37,306
Roads	105,751			
Protection to Persons and Property		10,854	5,757	
Total Fund Balances	<u>\$ 105,751</u>	<u>\$ 10,854</u>	<u>\$ 5,757</u>	<u>\$ 37,306</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

Scottsville- Allen County		
Public Properties Corporation Bond Fund	Jail Justice Center Bond Debt Payment Fund	Total Non-Major Governmental Funds
\$ 7	\$ 2,204	\$ 153,287
		8,592
<u>7</u>	<u>2,204</u>	<u>161,879</u>
7	2,204	2,211
		37,306
		105,751
		<u>16,611</u>
<u>\$ 7</u>	<u>\$ 2,204</u>	<u>\$ 161,879</u>

The accompanying notes are an integral part of the financial statements.

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ALLEN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

ALLEN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Local Government Economic Assistance Fund	Corps of Engineers Fund	Disaster and Emergency Services Fund	Transfer Station and Recycling Center Fund
REVENUES				
Licenses and Permits	\$	\$	\$	\$ 1,750
Intergovernmental	44,013	34,193		58,850
Charges for Services				315,594
Miscellaneous			9,600	19,748
Interest	124			56
Total Revenues	<u>44,137</u>	<u>34,193</u>	<u>9,600</u>	<u>395,998</u>
EXPENDITURES				
Protection to Persons and Property			27,040	
General Health and Sanitation				499,377
Debt Service				20,366
Capital Projects				54,956
Administration			688	48,724
Total Expenditures			<u>27,728</u>	<u>623,423</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources	<u>44,137</u>	<u>34,193</u>	<u>(18,128)</u>	<u>(227,425)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			22,732	250,000
Transfers To Other Funds		(30,000)		
Total Other Financing Sources (Uses)		<u>(30,000)</u>	<u>22,732</u>	<u>250,000</u>
Net Change in Fund Balances	44,137	4,193	4,604	22,575
Fund Balances - Beginning	<u>61,614</u>	<u>6,661</u>	<u>1,153</u>	<u>14,731</u>
Fund Balances - Ending	<u>\$ 105,751</u>	<u>\$ 10,854</u>	<u>\$ 5,757</u>	<u>\$ 37,306</u>

The accompanying notes are an integral part of the financial statements.

ALLEN COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2011

(Continued)

Scottsville- Allen County Public Properties Corporation Bond Fund	Jail Justice Center Bond Debt Payment Fund	Total Non-Major Governmental Funds
\$	\$	\$ 1,750
		137,056
		315,594
		29,348
	293	473
	293	484,221
		27,040
		499,377
254,133		274,499
		54,956
		49,412
254,133		905,284
(254,133)	293	(421,063)
254,133		526,865
	(50,000)	(80,000)
254,133	(50,000)	446,865
	(49,707)	25,802
7	51,911	136,077
\$ 7	\$ 2,204	\$ 161,879

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Johnny Hobdy, Allen County Judge/Executive
Members of the Allen County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 7, 2011. Allen County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Allen County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Allen County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Allen County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allen County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying comments and recommendation, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations to be material weaknesses 2011-01 and 2011-02.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Allen County Fiscal Court's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Allen County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

December 7, 2011

COMMENTS AND RECOMMENDATIONS

**ALLEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

INTERNAL CONTROLS - MATERIAL WEAKNESS:

2011-01 The Fiscal Court Should Record All Fixed/Capital Assets In Accordance With The Approved Capitalization Policy

During our testing of fixed/capital assets, we discovered the following:

- Construction in Progress on the Judicial Center in the amount of \$4,286,956 was not recorded on the fixed asset listing.
- Equipment and a repeater purchased for E-911 in the amounts of \$3,908 and \$6,135, respectively, were not recorded on the fixed asset listing.
- Two golf carts purchased for the Sheriff's Office in the amount of \$5,190 were not recorded on the fixed asset listing.
- A vehicle purchased for the jail in the amount of \$13,000 was not recorded on the fixed asset listing.
- A truck, forklift and tilt recycling trailer purchased for the Transfer Station in the amounts of \$23,000, \$21,656 and \$10,300, respectively were not recorded on the fixed asset listing.
- The infrastructure listing was not updated for new construction in the fiscal year causing infrastructure to be understated by \$504,505.

The financial statements have been adjusted for the above exceptions.

We recommend that the Fiscal Court record fixed/capital assets in accordance with its approved capitalization policy and all supporting documentation be maintained in accordance with its internal control procedures.

County Judge/Executive's Response: Will take these points and work to correct. I am now aware of our Judicial Center reporting requirements.

2011-02 Penalties And Interest Due On Delinquent Occupational Tax Not Collected

The County has improved their collection attempts on delinquent Occupational and Net Profits Taxes. However, they are not collecting penalties and interest on these delinquent payments. If the taxpayer does not calculate the penalties and interest, and voluntarily pay it, then the County does not bill for the penalties and interest due on these delinquent payments. The Occupational License Tax Ordinance adopted by the County states "Any business entity that fails to submit the minimum quarterly payment required under subsection (4) by the due date for the quarterly payment shall pay an amount equal to twelve percent (12%) per annum simple interest on the amount of the quarterly payment required..." However, the form used to calculate the tax shows the interest rate to be 8% per year. Apparently the Ordinance was amended, but the forms were never changed.

We recommend that the County develop procedures to bill for the penalties and interest due on the delinquent tax payments. There should be approved procedures for the method of collection, and who would approve the waiving of penalties and interest.

County Judge/Executive's Response: Will correct forms and work on delinquent policies.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

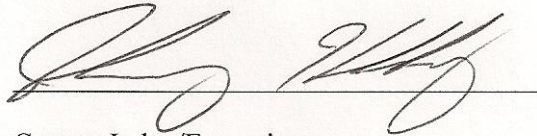
ALLEN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

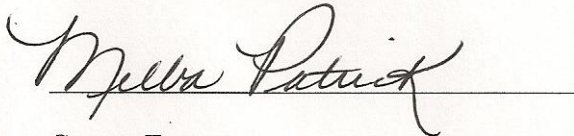
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ALLEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Allen County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to be "J. L. ...", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to be "Mella Patrick", written over a horizontal line.

County Treasurer

